

ICPS newsletter

Economists discuss inflation forecast for 2000

The draft law "On the State Budget of Ukraine for 2000", submitted by the Cabinet of Ministers to the Verkhovna Rada, is based on the assumption that next year the inflation rate will be 12 percent. Experts believe that this indicator should be increased, though opinions differ on the level to which it should be increased. Participants of ICPS's seminar discussed possible alternatives of the inflation forecast to the end of 2000

Mr. Oleksandr Lytvynov, Deputy Head of the Macroeconomic Forecasting Department of the Ministry of Economy of Ukraine, presented preliminary calculations of inflation rate to the end of 2000 to seminar participants, noting that these predictions are not an official forecast of the Ministry of Economy.

According to Mr. Lytvynov, there are several factors currently threatening to accelerate the inflationary process:

- *Constant exceeding of the EFF efficiency criterion regarding budget deficit financing.* It causes unplanned growth of the monetary base and currency in circulation. For example, according to the NBU forecast proclaimed at the end of 1998, the monetary base and currency in circulation should have increased by

approximately 19 percent during 1999. However, within the first 10 months of 1999 the monetary base increased by 38.3 percent, while the currency in circulation grew by 31.1 percent. Essentially, the discrepancy between the forecasted and actual values of the monetary indicators is caused by the significant increase in NBU purchases in the foreign exchange market, which this year have reached 670 million USD.

- *Dangerous dynamic of the national currency exchange rate.* On November 11 the official hryvnia rate overstepped the high end of the exchange corridor determined for 1999. The current exchange rate exceeds 5 UAH/USD. This fact draws special attention to the exchange rate indicator for 2000, because the previous forecast was

Last Week

Strategy of educational policy in Lviv.

A seminar on "Educational policy in Lviv", supported by the International Renaissance Foundation, was held on November 29–30 in the western Ukrainian city of Lviv. ICPS experts advised in the process of seminar preparation and participated in this event. The seminar was aimed at determining the goal, main tasks and the expected outputs of the city educational policy; finalising the text of a strategic document on educational policy prospects in Lviv; and forming a working group on policy realisation.

As a result of discussions, the seminar participants arrived at the conclusion that the main goal of Lviv educational policy, which will be fixed in the strategic document, is to create a modern municipal education system, transformed into an active element of social development and facilitating transition to a civil society. The city's educational system should support the implementation of human potential, and respond to world standards, as well as nation's and Lvivites' interests.

To implement educational policy successfully, it is necessary to develop a tandem government-public system of management in the sphere of education, to establish institutions ensuring the operation of the system, and to create a proper legislative base. Design of new educational programs, meeting Lviv's priorities, and creation of a staff training system for a functioning modern city educational system are of equal importance.

Summarising results of the seminar, representatives of local authorities and the Lviv community, which supported the Board of Education's initiative regarding the city educational policy, expressed the conviction that the

November inflation rate was 2.9 percent

According to data of the State Statistics Committee, the inflation rate in Ukraine (increase in consumer market prices) reached 2.9 percent in November, compared to 1.1 percent in October. Since the beginning of 1999, the overall consumer price index has amounted to 14.5 percent in Ukraine, compared to 16.2 percent in 1998.

The State Statistics Committee announced that in November food prices grew by 5 percent, non-food prices by 1 percent, and chargeable service tariffs by 0.2 percent. Since the beginning of the year, food prices have grown by 18.4 percent, non-food prices by 8.3 percent, and chargeable service tariffs by 11.2 percent.

The government scheduled a 19.1-percent inflation rate in the draft law "On the State Budget of Ukraine for 1999". However, the forecast has been corrected to 16 percent because of the Verkhovna Rada veto on raise of tariffs on housing and utilities to their cost value.

The inflation rate in Ukraine reached 20 percent in 1998 and 10.1 percent in 1997.

strategic document and planned measures are timely. Mr. Włodzimierz Paszinski, ex-curator of education for Warsaw voievodship, noted that the prospects for the success of the Lviv educational policy are realistic.

All results of the seminar will be included in a new edition of the strategic document on educational policy prospects in Lviv, whose presentation is planned for mid-December.

This Week

ICPS completes the project *Ukraine's Future: A Plan for the President*. The resulting document, titled *Ukraine's Future: Plan for the President*, is planned to be presented at a press conference on December 10.

During November, the International Centre for Policy Studies, in cooperation with the Freedom of Choice Coalition of non-government organisations and the Coordination and Analysis Center for Ukrainian Business Associations, conducted a series of discussions on key issues of government policy in Ukraine. This joint work involved representatives of the government, non-government organisations, scientific and educational institutions, and the private sector from all regions of Ukraine.

The discussion led to an understanding of the necessity to elaborate the government's reform strategy as a consistent process aimed at achieving society's goals. Recommendations on such a strategy are represented in the document *Ukraine's Future: A Plan for the President*.

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Improvement of the efficiency of state expenditures. A quarterly seminar on "Moving towards objective-based budgeting" will be held as a part of ICPS's Center of Policy Excellence (budget policy) project on Saturday, December 11. The objective of the seminar is to provide input into work done by the Ministry of Finance on improving the efficiency of state expenditures through moving converting to objective-based budgeting.

It is expected that this seminar will provide feedback on the process developed by CoPE participants from the Ministry of Finance to move towards objective-based budgeting. The direct output of the workshop will be a report summarizing the key themes and suggestions arising from the workshop.

grounded on the assumption that next year's average annual dollar exchange rate will be 5 UAH/USD.

· *New tariffs on housing and utilities will be set in 2000.* According to the preliminary predictions, during the next year the tariffs will increase by 25–30 percent, and such changes will translate to 4–4.5 percentage points of overall inflation.

Mr. Lytvynov noted that inflation calculations for 2000 are based on the following main assumptions:

- in 2000 the average annual exchange rate will not exceed 5.3–5.5 UAH/USD;
- the real GDP decrease this year will reach 0.3–0.5 percent, while a 2-percent increase of this index is forecast for 2000;
- currency in circulation will grow by 18–20 percent in 2000, and the monetary base by 15–17 percent.

According to Mr. Lytvynov, in the first quarter of 2000 the dynamic of the consumer price index will correspond to the previous forecast. Introduction of new tariffs on housing and utilities, and the lag in increasing the monetary base and currency in circulation will predetermine CPI level. However, the further dynamic of the previous forecast is considered to be too low, because in Q3-Q4'2000 consumer prices will increase due to faster rise of the dollar exchange rate. Analysing the impact of the mentioned factors on inflation, Mr. Lytvynov noted that it was necessary to modify the predicted Dec'00-to-Dec'99 inflation index, i.e., to increase it. According to the preliminary calculations, this index should be 114.7 percent rather than the 112 percent predicted earlier.

Experts of the Polish Centre for Social and Economic Research (CASE) presented their assumptions concerning the inflation forecast to 2000. CASE

economists believe that in 2000 the growth of real GDP will reach 0.4 percent; the hryvnia exchange rate will amount to 6.75 UAH/USD by the end of 2000; and the monetary base will increase by 35 percent during 2000.

According to the CASE experts, notwithstanding that the official forecast of CPI growth for 1999 is almost the same as the forecasted actual index, in 2000 the inflation rate will be much more than the 12 percent scheduled by the Ministry of Economy. Polish experts forecast that in 2000 CPI (December to December) will grow by 28.3 percent. They explain the higher inflation rate by the following causes:

- increase in the monetary base in the absence of real GDP growth;
- in 2000 Ukraine must pay back foreign and domestic debts;
- raised tariffs on transport, housing, and utilities.

ICPS predictions of the inflation rate for 2000 take an in-between position compared to the figures presented by Mr. Lytvynov and CASE, based on moderate assumptions: the inflation rate (y-o-y) will amount to 16.3 percent, if money in circulation increases by 21 percent, the monetary base by 19 percent, the exchange rate by 19 percent, GDP by 0.5 percent, and tariffs on housing and utilities are raised on average by 25 percent during the first quarter of 2000. According to ICPS economists, consumer price growth next year will be restrained, due to declining income and reduced private consumption.

A macroeconomic seminar on "Inflation in 1999–2000: Effects and Expectations" was held at ICPS on November 30, 1999.

PS Newsletter is a weekly publication of the International Centre for Policy Studies delivered by electronic mail.

To be included in the distribution list mail to: marketing@icps.kiev.ua.

ICPS Newsletter is published by the ICPS Publications Group.

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The International Centre for Policy Studies is an independent non-profit research organisation with the objective of improving the Ukrainian policy development process.

This is achieved by increasing the know-how of key government officials for policy choices, formulation, and debate, and the awareness of the public-at-large of the benefits of policy.

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